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Zacks Small-Cap Research

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FRX Innovations, Inc. (OTCQB:FRXIF)

FRXIF: 2Q Results Show Growth and Improved Margins

FRXIF is growing its market penetration in the sustainable fire-retardant business and is getting a tailwind from increasing government regulation. We value FRXIF at $1.02 per share based on a discounted cash flow model with a 13% discount rate.

Current Price (08/29/23)	$0.13
Valuation	**$1.02**

OUTLOOK

FRX Innovations is a company on the cutting edge of a growing demand for a fire retardant without the potential negative health impacts many of the current retardants have. The company's Nofia product is endorsed by numerous "green" organizations and customer testimonials are glowing.

The company released its 2Q 2023 results, which showed increasing revenues in each quarter this year, reinforcing a trend that we saw forming as demand for safe chemicals grows. As a result, we raised our price target for FRXIF.

SUMMARY DATA

52-Week High	**$0.50**
52-Week Low	**$0.13**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**120**
Shares Outstanding (mil)	**100**
Market Capitalization ($mil)	**$13**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Medium**
Type of Stock	**Small-Growth**
Industry	**Industrials**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	N/A	N/A	N/A	N/A	N/A
2022	1.1 A	1.3 A	0.4 A	0.3 A	3.1 E
2023	0.6 A	1.5 A	1.2 E	1.4 E	4.7 E
2024	1.6 E	1.8 E	1.8 E	2.0 E	7.2 E

Earnings per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	N/A	N/A	N/A	N/A	N/A
2022	-0.17 A	-0.04 A	0.04 A	-0.06 A	-0.23 A
2023	-0.02 A	-0.02 A	-0.02 E	-0.02 E	-0.08 E
2024	-0.02 E	-0.02 E	-0.02 E	-0.01 E	-0.07 E

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Update

FRX Innovations announced its 2Q 2023 results, that continues to illustrate what we have been talking about for the past several quarters—revenues are rebounding, and that growth appears to be accelerating as the year goes on. Additionally, the company is improving the efficiency of gaining those revenues as evidenced by the sharply improving margin percentage. As more governmental entities pass legislation mandating greener chemicals, and as consumers themselves demand more safety in the products they purchase, we believe the growth FRX is seeing will continue and expand. This was recently illustrated by the announcement that FRX had signed a memorandum of understanding with a German specialty chemicals company—LANXESS—which is one of the world's largest flame-retardant producers. Marc Lebel, CEO of FRX, noted that "As a direct consequence of recently passed legislation, market dynamics have changed significantly, causing Nofia products to be pulled into large new application areas."

The details of 2Q 2023:

- Revenue for the quarter came in at $1,480,388, which was more than double the revenue seen in the previous quarter of just over $625,000.

- FRX posted a quarterly loss of $0.02 per share, slightly ahead of our estimates due largely to an improvement in the gross margin.

- Gross margins improved to a gain of $469,938 from a loss of $493,554 in 2Q 2022 and from a gain of $168,000 in the previous quarter.

- We improved our estimate for the full year 2023 and the full year 2024 earnings to $0.08/share and $0.07/share respectively due largely to the improving efficiency seen in the form of the improvement of the gross margin.

- As a result of this lower loss than anticipated, a greater rate of growth in sales, and improved efficiency, and adjusting the discount rate down slightly due to our view that the risks to the company have been reduced as revenues have increased, we are increasing our price target for FRXIF from $0.80 per share to $1.00 per share.

FRX Innovations is a company that continues to produce new fire-retardant products that are free of "forever chemicals" that are increasingly being banned by local and national governments. The company also recently announced that it was filing for an additional patent on a fire retardant for polycarbonate (PC) plastics and its alloys.

PC and its alloys are used in a wide range of products used by consumers around the world in everyday life, including such items as: electric vehicles, consumer electronics and home appliances. Major equipment manufacturers that consumers use every day, such as Apple and IKEA, among many others, have committed that their products will be PFAS free. The company notes that it has already demonstrated the capability to replace the well-known PFAS chemical KPFBS in PC and its major blends. These companies are also looking at replacing the well-known anti-drip—PTFE. Anti-drips are chemicals included in products to reduce the potential for dripping material when it comes into contact with fire. The company notes that replacing PTFE and maintaining the needed flame-retardant properties has been difficult, but that it believes FRX has now achieved that goal.

We have written in previous reports about new regulations banning these potentially dangerous chemicals from fire retardants increasing around the world. We believe, through growing customer acquisition and glowing reviews from existing customers, that FRX is well positioned to use this new product to further expand its retardant market.

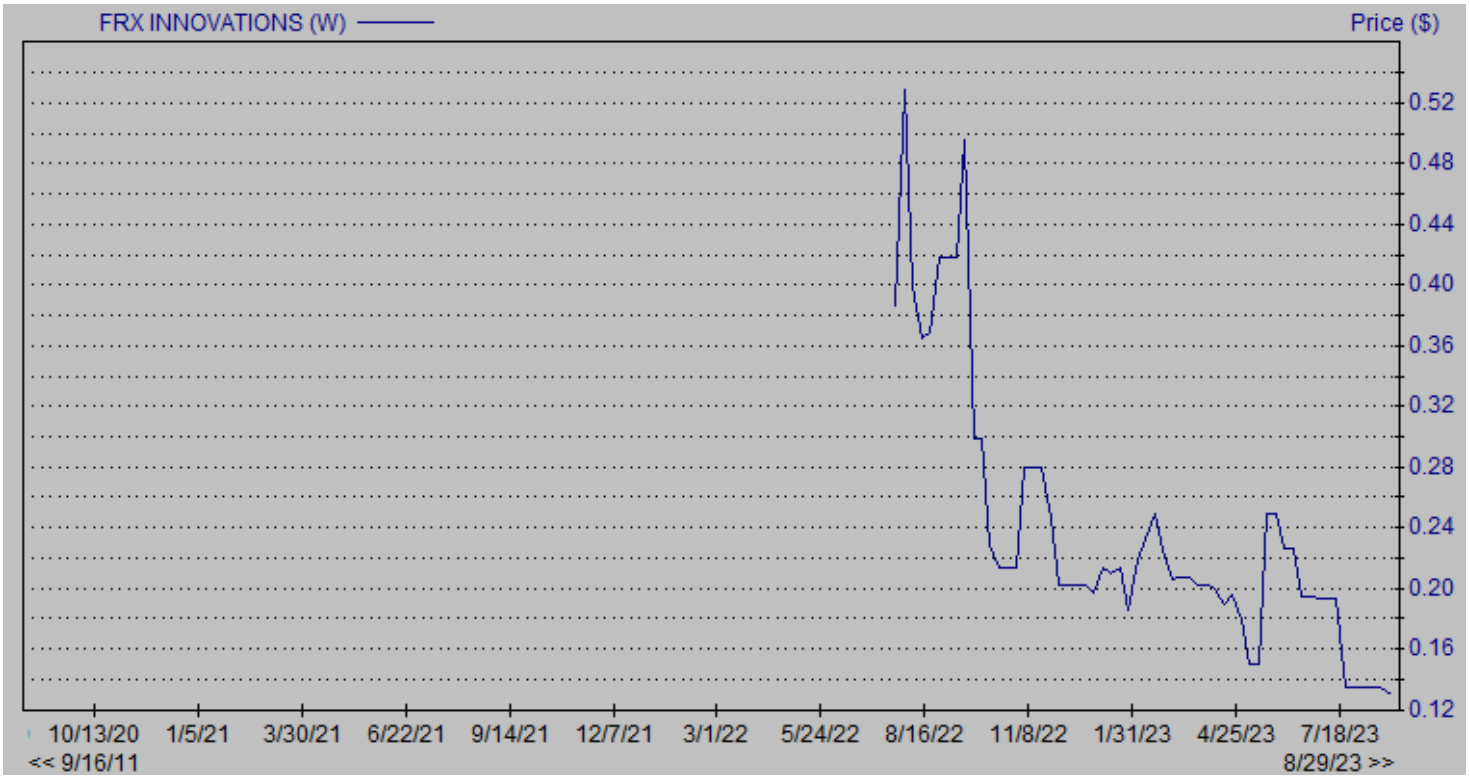
As we've previously discussed, Nofia is a registered trademark of FRX and is the company's signature fire retardant product. Nofia products are manufactured at its manufacturing facility on the Port of Antwerp in Belgium, one of the world's largest chemical producing clusters. The FRX production plant in Antwerp was constructed in 2013 with completion in 2014. It is highly efficient and requires only two technical operators per shift. It operates to the highest quality standards and is ISO 9001 certified. Nofia Polyphosphonates are produced using sustainable green chemistry principles such as a solvent-free production process, no waste byproducts, and near 100% atom efficiency. This new product will be an exciting addition to FRX's portfolio that included an extensive patent estate with 64 patent applications globally as of March 31, 2022. Per company management, Nofia flame retardants are independently assessed by the following organizations to have the best sustainability ratings of any similar product: GreenScreen, Benchmark 3, ChemFORWARD SAFER Class B, TCO listing, ChemSec Marketplace Alternative as an Oeko-Tex for textile applications—an impressive list that helps confirm that Nofia is safe for humans to be around.

Fire retardant requirements are not going away for the millions of products that are required to have them, but the allowable retardants are changing, and not just by force. Companies are now realizing it's good business to provide safer products to consumers. We reiterate our bullish view on FRXIF and believe the company is back in growth mode that will benefit investors.

INCOME STATEMENT AND BALANCE SHEET

FRX Innovations Income Statement and Balance Sheet									
		2Q2022A	3Q2022A	2022A	1Q2023A	2Q2023A	2023E	2024E	2025E
Revenue		1,305,790	397,182	3,114,136	628,775	1,480,388	4,671,204	7,240,366	11,222,568
Cost of Goods Sold		1,799,344	1,405,437	3,165,553	460,589	1,010,450	3,036,283	4,706,238	6,733,541
	Gross Margin	(493,554)	(1,008,255)	(51,417)	168,186	469,938	1,634,921	2,534,128	4,489,027
Operating Expenses									
	Administative	1,055,333	655,476	6,157,798	1,256,174	1,312,476	5,249,904	5,512,399	5,788,019
	Sales and Mktg	132,914	132,097	72,784	172,060	120,810	483,240	507,402	532,772
	Research	161,274	51,684	503,157	187,872	108,861	528,315	554,731	582,467
Total Operating Expenses		1,349,521	839,257	6,733,739	1,616,106	1,542,147	6,261,459	6,574,532	6,903,258
Operating Gain/(Loss)		(1,843,075)	(1,847,512)	(6,785,156)	(1,447,920)	(1,072,209)	(4,626,537)	(4,040,404)	(2,414,231)
Other Income/(Expenses)									
	Interest Expense	(301,942)	(138,609)	(1,680,951)	(173,769)	(114,633)	(458,532)	(435,605)	(413,825)
	Other Income/(Expense)	(42,939)	(70,406)	(5,707,061)	597,680	(490,256)	0	0	0
Total Other Income/(Expense)		(344,881)	(209,015)	(7,388,012)	423,911	(604,889)	(458,532)	(435,605)	(413,825)
Total Gain/(Loss)		(2,187,956)	(2,056,527)	(14,173,168)	(1,024,010)	(1,677,098)	(5,085,069)	(4,476,009)	(2,828,056)
Total Gain/(Loss) per share		$ (0.04)	$ (0.03)	$ (0.23)	$ (0.02)	$ (0.02)	$ (0.08)	$ (0.07)	$ (0.04)
Wtd avg num. of shares outstanding		53,654,032	79,994,865	61,645,217	88,195,078	99,457,659	64,727,478	67,963,852	68,643,490
Assets									
Current Assets									
	Cash and equivalents	1,795,770	548,169	559,466	1,069,209	1,007,568	587,439	616,811	647,652
	Net receivables	1,588,138	522,081	462,419	516,217	617,290	485,540	509,817	535,308
	Net inventories	2,389,303	2,390,655	3,329,469	2,934,736	2,737,629	3,495,942	3,670,740	3,854,277
	Other current assets	447,367	383,354	198,236	481,933	292,378	208,148	218,555	229,483
Total Current Assets		6,220,578	3,844,259	4,549,590	5,002,095	4,654,865	4,777,070	5,015,923	5,266,719
Non-Current Assets									
	Plant and Equipment	17,301,626	15,969,583	17,234,277	17,289,208	17,132,009	16,889,591	16,551,800	16,220,764
	Right-of-use assets	458,558	426,619	843,500	819,484	801,042	860,370	877,577	895,129
	Intangible assets	384,624	490,113	382,416	381,312	315,123	390,064	397,866	405,823
	Patents	391,376	378,876	330,555	308,796	380,208	337,166	343,909	350,788
	Other non-current assets	-	-	45,697	20,165	20,165	46,611	47,543	48,494
Total Non-Current Assets		18,536,184	17,265,191	18,836,445	18,818,965	18,648,547	18,523,803	18,218,695	17,920,997
Total Assets		24,756,762	21,109,450	23,386,035	23,821,060	23,303,412	23,300,872	23,234,618	23,187,716
Current Liabilities									
	Accounts Payable	3,040,062	2,680,888	3,345,833	2,383,128	2,949,024	3,412,749	3,481,005	3,550,626
	Accrued Expenses	903,203	729,143	545,975	500,167	542,179	556,895	568,032	579,393
	Other current liabilities	1,567,890	1,479,333	9,882,544	10,229,570	10,410,355	10,080,195	10,281,799	10,487,435
Total Current Liabilities		5,511,155	4,889,364	13,774,352	13,112,865	13,901,558	14,049,838	14,330,836	14,617,454
Long-term Liabilities									
	Note and conv. note	10,939,995	10,133,956	2,832,202	2,786,871	2,837,165	2,973,812	3,122,503	3,278,628
	Common stock warrants	2,063,459	1,933,517	0	0		0	0	0
	Conv. Debenture	-	-	0	0	-	0	0	0
	Lease liability	441,320	408,306	767,278	508,673	470,499	805,642	845,924	888,220
Total Long-Term Liab.		13,444,774	12,475,779	3,599,480	3,295,544	3,307,664	3,779,454	3,968,427	4,166,848
Total Liabilities		18,955,929	17,365,143	17,373,832	16,408,409	17,209,222	17,829,292	18,299,263	18,784,302
Stockholders Equity/(Deficit)									
	Common stock	48,363	47,153,057	27,157,210	29,151,939	29,093,819	27,700,354	28,254,361	28,819,449
	Additional Paid-in Capital	47,153,058	-	25,302,974	25,302,974	25,302,974	25,302,974	25,302,974	25,302,974
	Accumulated Deficit	(41,033,924)	(42,798,413)	(46,023,728)	(48,179,093)	(48,815,504)	(47,607,166)	(40,448,166)	(43,245,431)
	Other	(366,664)	(610,337)	(424,253)	1,136,831	513,901	75,417	77,681	80,011
Total Stockholders Equity/(Deficit)		5,800,833	3,744,307	6,012,203	7,412,651	6,095,190	5,471,580	13,186,850	10,957,003
Total Liabilities and Shareholder Equity		24,756,762	21,109,450	23,386,035	23,821,060	23,304,412	23,300,872	31,486,112	29,741,304

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